

## **Rubber Research Board of Sri Lanka – 2018**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the of Rubber Research Board of Sri Lanka for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act, No.38 of 1971. My comments and observations which I consider should be tabled in Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Board as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.2 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board's financial reporting process.

As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the Board is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Board.

#### **1.4 Auditor's Responsibilities for the Audit of the Financial Statements**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Institute to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Board, and

whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board;
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

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### 1.5.1 Sri Lanka Public Sector Accounting Standards

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<b>Non-compliance with Reference to the Relevant Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
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(a) The value of the lands belonging to the Board totaling Rs. 4,237,429 had not been revalued and the fair value thereof had not been shown in the financial statements in terms of Sri Lanka Public Sector Accounting Standard, No. 07.	The Department of Government Valuation has been entrusted to revalue the lands and buildings, but having completed the preliminary activities, they have provided only the revaluation amounts required to be used for annual insurance.  Action will be taken in due course to look into this again so as to obtain the revaluation amounts thereby updating the financial statements.	Action should be taken to revalue the lands in terms of the Standard and the fair value thereof should be shown in the financial statements.
(b) In terms of Section 15 of Sri Lanka Public Sector Accounting Standard, No. 09 the stock should be valued either to the cost or net realization value, whichever is less. However, without doing so, the stock had been valued to the average cost, thus showing the value of Rs. 17,991,255 in the financial statements.	The Board currently uses a computer software to account the stocks. The said software revalues the stocks to the average cost from the beginning. Action will be taken to value the stocks in accordance with the said Standard from the year 2019.	As Public Sector Accounting Standards have been introduced, the accounting policy should also comply with those Standards.

### 1.5.2 Accounting Policies

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Audit Observation -----	Management Comment -----	Recommendation -----
Action had not been taken to identify the assets being represented by a sum totaling Rs. 219,904,818 shown in the statement of financial position as capital grants received over many years from the Treasury and other institutions for miscellaneous projects thereby including such assets in the financial statements in accordance with the accounting policy of the Board.	Action has been taken to make the relevant adjustments from the year 2016 in accordance with the policy for accounting the capital grants. Furthermore, an audit firm has been specially assigned to separately identify and account the grants up to the year 2015. The final report thereof has been furnished to the Audit and Management Committee and based on the conclusion, necessary action will be taken in due course .	The policy of the Board for accounting the capital grants, should be adhered to.

### 1.5.3 Accounting Deficiencies

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Non-compliance with Reference to the Relevant Standard -----	Management Comment -----	Recommendation -----
(a) A sum of Rs. 95,293,799 had been paid in the year under review for purchasing fixed assets, but that sum had been shown as Rs. 94,398,593 in the cash flow statement. As such, cash outflows had been understated by a sum of Rs. 895,206 under investment activities in the cash flow statement.	Action will be taken to rectify the error caused when adjusting the prior years, and revenue & allocations for doubtful debts identified during the year had been adjusted to the grants, thereby presenting a revised cash flow statement.	The monies incurred on purchasing fixed assets, should accurately be shown in the cash flow statement.
(b) A sum totaling Rs. 64,372,163 identified as revenue out of the grants received from the Treasury, the Ministry, and another institution during the year under review, had been	- Do -	The sum identified as revenue should accurately be adjusted to the cash flow statement.

adjusted as Rs. 116,758,016 under non-cash adjustments in the cash flow statement. Hence, operating activities had been overstated by Rs. 52,385,853.

- (c) As prior year adjustments totaling Rs. 26,084,947 had been shown under non-cash adjustments of the operating activities, the cash flow generated from the operating activities, had been overstated by that amount. - Do - Prior year adjustments should not be adjusted to the cash flow statement.

#### 1.5.4 Lack of Documentary Evidence for Audit

Subject	Amount	Audit Evidence not Furnished	Management Comment	Recommendation
Debtors	Rs. 27,831,898	Letters of verification of balances.	of <u>Debtor Balances</u> of Letters of the verification of balances had been sent to 206 debtors whose addresses could be found with respect to the debtor balances as at 2018.12.31. Letters of 30 of them have been returned whilst 17 have sent replies. It is practically difficult to find out the addresses and related information in regard to many of the debtor balances. As such, a detailed report of inquiry has been furnished to the Audit and Management Committee in this connection. Further action will be taken based on the recommendations of the Committee.	Letters of verification of balances should be obtained with respect to debtor balances of the Board and action should be taken to prepare age analyses for debtor and creditor balances.

Creditors 21,714,480 Age analyses

Creditor Balances

The report obtained from an external audit firm for the settlement of creditor balances prior to the year 2015, has already been furnished to the Audit and Management Committee, further action will be taken for settlement based on the recommendation of the Committee.

Action has been taken to systematically settle the creditor balances existed after the year 2016. All of the creditor balances relating to the year 2018, have been settled.

**1.6 Non-compliances with Laws, Rules, Regulations, and Management Decisions**

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<b>Reference to Laws, Rules, and Regulations, etc.</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
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(a) Section 4.7 of Chapter XV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.	Failure to recover a sum totaling Rs. 3,509,706 receivable to the Board relating to a period of 02 – 27 years from 04 officers who had breached bonds by proceeding abroad for studies on full-pay leave.	Instructions have been given to us by the Attorney General's Department to take legal action for the recovery of monies receivable from 02 officers who had breached bonds by proceeding abroad for studies on full-pay leave. Although, letters of demand have been dispatched accordingly, they have been returned due to failure in delivery. Further action will be taken based on the instructions given by the Attorney General in that connection.	Action should be taken to recover those monies in accordance with the provisions of Establishments Code.

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| (b) | Financial Regulation 104 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka. | Although a period of 6-22 months has elapsed from the dates of the accidents that took place in 6 instances, no Boards of Inquiry had been appointed thereby failing to ascertain the losses and the parties responsible. | Action should be taken to repair the damages caused by the accidents occurred in the preceding year and collect the insurance indemnities. Investigations are underway in this regard.   | Action should be taken in terms of Financial Regulation 104 on the vehicle accidents. |
| (c) | Assets Management Circular, No. 01/2018 of the Secretary to the Treasury, dated 19 March 2018.           | Although a period of 02 – 04 years elapsed since 05 vehicles, 28 – 37 years old, had been withdrawn from use, action has not so far been taken to dispose those vehicles.   | The tender procedure has been followed for the removal of old vehicles, and the approval of the Board of Directors had been obtained on 2019.05.24 thereon. Once the concurrence of the Secretary to the Ministry is obtained on that approval, action will be taken to conclude the disposal. | Action should be taken on old vehicles in terms of provisions of the Circular.        |

## 1.7 Funds Management

### Audit Observation

As for the functionality of institutions directly funded by the Government in terms of Section 02 of the Treasury Operations Circular, No. 1/2008, dated 03 March 2008, a proper investment methodology should be followed ensuring favorable results to the national economy. However, a balance ranging from Rs. 37 million to Rs. 106 million had been retained dormant in a current account during January – December of the year under review whilst a balance ranging from Rs. 02 million to Rs. 36 million had been retained idle in another current account for a period of over one year.

### Management Comment

Most of the monies relating to the capital imprest equivalent to Rs. 60 million had been released for the capital expenses of the Board in the final quarter of the year. Moreover, the relevant procurements under the Head of Capital Expenditure had been concluded in the year 2018. However, after completion of certain works, the bills had been furnished in the first quarter of the year 2019. As such, those monies had been utilized for the settlement of those bills.

### Recommendation

According to the provisions of the Circular, procedures ensuring most favorable results to the national economy should be followed.

## 2. Financial Review

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### 2.1 Financial Results

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The operating result of the year under review had been a deficit of Rs. 21,250,394 as compared with the corresponding deficit of Rs. 45,382,394 for the preceding year, thus observing an improvement of Rs. 24,132,000 in the financial result. This improvement had mainly been attributed by the increase in deferred income by a sum of Rs. 2,362,088 and the decrease in other expenses by Rs. 57,303,562 despite the increase in maintenance expenditure on Property, Plant and Equipment by a sum of Rs. 27,102,375 as compared with the preceding year.

### 2.2 Trend Analysis on the Main Items of Revenue and Expenditure

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#### Revenue :

The total revenue of the Board along with the grants received from the Treasury in the year under review, amounted to Rs. 572,387,651. The comparison of that value with the total revenue of the preceding year totaling Rs. 528,773,233 indicated an improvement of 8 per cent. When comparing the revenue from estates and other sources except for the Government grants, with the preceding year, an increase by a sum of Rs. 58,094,418 was observed indicating 41 per cent.

Of the four estates belonging to the Board, two estates had sustained losses in the year under review whereas two estates had sustained profits. The profit of the Dartonfield Estate for the preceding year amounting to Rs. 11,279,963, had increased up to Rs. 12,877,030 in the year under review representing 14 per cent.

#### Expenditure :

The total expenditure of the Board for the year under review amounted to Rs. 593,638,045, and when compared that value of Rs.574,155,627 with that of the preceding year, an increase of 3 per cent was indicated.

## 3. Operating Review

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### 3.1 Management Inefficiencies

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Audit Observation	Management Comment	Recommendation
(a) Even though a sum of Rs. 15,701,989 had been paid to a public institution on 29 December 2017 for purchasing an electric generator, the machine had not been supplied even up to	The contract for the supply and installation of 02 electric generators has been awarded to the Ceylon Electricity Board. Furthermore, agreements have been signed	In order for the funds spent to be economically productive, the machines should be supplied without delay.



31 May 2019.

in order to complete this task within a period of 12 months. However, doing so as agreed has become practically difficult. When inquired, the Ceylon Electricity Board has informed that the electric generators were ordered for our institution, and once received, action would be taken for the installation after carrying out the relevant tests. As such, action has been taken to extend the period of agreement accordingly.

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| <p>(b) Buildings had been constructed on the lands of Narampola (Alawwa) and Kumarawatta (Monaragala) belonging to the Janatha Estate Development Board by incurring a sum of Rs. 16,199,917. However, those lands had not been legally taken over by the Board.</p> | <p>Having taken all the action for taking over the lands of Narampola (Alawwa) and Kumarawatta (Monaragala) belonging to the Janatha Estate Development Board, the Ministry has been informed.</p> <p>The Ministry is taking over the lands. Once the legal activities are complete, the lands will belong to the Board legally.</p> | <p>Before being taken over, no constructions should be made on the lands not belonging to the Board. The activities relating to the acquisition of lands should be expedited.</p> |
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### 3.2 Idle or Underutilized Property, Plant and Equipment

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Audit Observation	Management Comment	Recommendation
<p>(a) As the four instruments named, Moving Die Rheometer of the model HTM 2000, Aging Oven, Vacuum Oven bearing No. K 489, and the Rubber Process Analyzer purchased in the years 2010-2017 at the total value of Rs. 15,743,829, had not been repaired and made use of, those instruments had remained idle over periods of</p>	<p>The Moving Die Rheometer of the model HTM 2000 purchased in the year 2010 had been used for a period of over 2 years. As minor errors were later identified in the data provided by that instrument, the local agent was informed for remedial action.</p> <p>Normalcy is expected within the next 6 months. Aging Oven will be repaired in the future. The Vacuum Oven bearing No. PC 489, became</p>	<p>When selecting bidders, the possibility of after-sales services and repairs, should be taken into consideration.</p>

- 2 – 8 years.
- non-functional recently, action has been taken to restore that instrument. The earthing voltage required for the Rubber Process Analyzer (RPA) running on German technology purchased in the year 2017, did not exist at the area of the laboratory. A Dryer and a Compressor were purchased and installed to regulate the earthing voltage. Accordingly, the engineers of the Mon Tech institution installed the RPA instrument at the Ratmalana office of the Rubber Research Institute on 14.03.2019. Since then, this instrument has been in use for analyzing rubber compounds up to this day.
- (b) Despite being decided that the two machines named, Two Roll Mill Cal/006, and Hydraulic Press Cal/010 remaining idle at the raw rubber and chemical analysis division for over 25 years, be preserved for their antique value, the machines remained outside without security and being covered
- Our institute had received 3 machines of Two Roll Mills in the year 1972 under the Colombo Plan project. Two of those machines have been in use for researches up to this date. Spare parts can not be found for those machines on the market at present, and hence, parts of the non-functional machine were used to repair the two machines. As such, many spare parts can not be seen inside that machine. Considering the antique value, it was proposed to put them at the museum.
- The Hydraulic Press had also been received in the year 1972 under the Colombo Plan project. Repairing that machine is also uneconomic, and it was also proposed to be sent to the museum. When this Department was renovated in January 2019, the said two machines were removed from the Department and placed at a sheltered location in the adjacent building. As the machine is huge and weighs about 7 tons, it can not be placed in a room.
- Should be placed securely for dispatching to the museum.

### 3.3 Deficiencies in Contract Administration

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Audit Observation -----	Management Comment -----	Recommendation -----
Although the sum payable to the contractor relating to the repairs on the administrative building was Rs. 4,142,660, a sum of Rs. 4,644,480 had been paid, thus an overpayment of Rs. 501,820 had been made.	This transaction will be reexamined, and in case of an overpayment, action will be taken to recover the amount paid in excess from the other contract monies to be paid to him.	Action should be taken in terms of Financial Regulation 137 and 138 in this connection.